

Message Text

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ACTION EUR-25

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C O N F I D E N T I A L MOSCOW 9471

USDOC FOR BEWT/BOWDEN

EO 11652: GDS

TAGS: ETRD, UR, US

SUBJ: APPARENT SOVIET SHIFT ON SYNTHETIC RUBBER COMPLEX

1. SUMMARY. NEGOTIATIONS IN MOSCOW JUNE 18-19 BETWEEN TEAM FROM LUMMUS COMPANY AND SOVIETS REVEALED MAJOR SHIFT IN SOVIET INTENTIONS ON PROJECTED SYNTHETIC RUBBER COMPLEX. MOST LOGICAL EXPLANATION OF SOVIETSHIFT APPEARS TO BE REVALUATION OF POLICY REGARDING USE OF OIL OR NATURAL GAS AS FEEDSTOCK IN PETRO-CHEMICAL AND PETROLEUM/REFINING MINISTRY MAY ALSO HAVE PLAYED A ROLE. END SUMMARY.

1. FOLLOWING UP DISCUSSIONS IN U.S. DURING APRIL/MAY 1974 VISIT OF MINISTER OF PETROCHEMICAL AND PETROLEUM-REFINING MINISTRY V.S. FEDOROV, DELEGATION CONSISTING OF LUMMUS AND PHILLIPS PETROLEUM OFFICIALS MET WITH OFFICIALS OF MINISTRY OF PETROCHEMICAL AND PETROLEUM REFINING, MINISTRY OF FOREIGN TRADE AND TECH-MASHIMPORT JUNE 18-19. (GULD OIL REP, WHO WAS TO HAVE ACCOMPANIED GROUP, FAILED OBTAIN SOVIET VISA.) DURING HIS VISIT TO US, FEDOROV HAD BEEN VERY POSITIVE REGARDING PROPOSAL THAT LUMMUS

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CONSTRUCT 750,000 TON/YEAR BUTADIENE PLANT, USING PHILLIPS

AND GULF TECHNOLOGY. PROPOSED PLANT WOULD BE PART OF LARGE NEW PETROCHEMICAL COMPLEX CONSISTING, INTER ALIA, OF 450,000 TON/YEAR ETHYLENE CRACKER USING NAPHTHA AS BASIC FEEDSTOCK. CORRESPONDENCE BETWEEN LUMMUS AND SOVIETS FOLLOWING FEDOROV'S RETURN TO USSR HAD INDICATED NO CHANGE IN SOVIET INTENTIONS. HOWEVER, DURING INITIAL MEETING JUNE 18 SOVIET SIDE, HEADED BY FEDOROV'S DEPUTY V.M. SOBELEV, ADVISED THAT PLANS CONSTRUCT BUTADIENE PLANT HAD BEEN TEMPORARILY SHELVED IN FAVOR OF ISOPRENE RUBBER PLANT, WORKING ON BASIS LARGELY SOVIET TECHNOLOGY (DEVELOPED JOINTLY WITH IFP). US GROUP WAS ALSO INFORMED THAT FEDOROV WAS ILL, AND HAD BEEN ILL SINCE HIS RETURN FROM US, AND WOULD BE ABLE MEET WITH THEM.

3. IN DISCUSSION WITH ECON COUNSELOR AND COMBATT JUNE 19 PRIOR TO SECOND MEETING WITH SOVIETS, LUMMUS/PHILLIPS TEAM EXPRESSED SURPRISE AT UNEXPECTED SOVIET CHANGE IN SIGNALS. LUMMUS VICE PRESIDENT JOHANSSON NOTED THAT LUMMUS WOULD HAVE TO LOOK VERY CLOSELY AT NEW SOVIET PROPOSAL THAT COMPANY DO ENGINEERING WORK FOR ISOPRENE PLANT, GIVEN LARGE COSTS INVOLVED, WITH NO GUARANTEE THAT COMPANY WOULD OBTAIN CONTRACT. UNDER THIS VARIANT, GULF WOULD BE OUT OF PICTURE ENTIRELY AND PHILLIPS WOULD HAVE RELATIVELY MINOR ROLE AS TECHNOLOGY SUPPLIER. JOHANSSON ASKED WHETHER SOVIET SHIFT COULD BE EXPLAINED AS PART OF POLICY TO DOWNGRADE TRADE TIES WITH US. EMBOFFS EXPLAINED THAT ALL INDICATIONS WERE QUITE TO CONTRARY, I.E. THAT SOVIETS APPEARED ANXIOUS MOVE AHEAD ON MAJOR PROJECTS INVOLVING US, PARTICULARLY DURING PERIOD IMMEDIATELY PRIOR TO PRESIDENT'S VISIT. FURTHER DISCUSSION OF SOVIET SHIFT FOCUSED ON FACT THAT BUTADIENE PLANT WOULD BE BASED ON PETROLEUM DERIVATIVE (NAPHTHA) WHILE ISOPRENE PLANT WOULD USE NATURAL GAS AS BASIC FEEDSTOCK. EMBOFFS SUGGESTED THAT SOVIETS MIGHT HAVE DECIDED THAT AGREEMENTS ON PENDING NATURAL GAS PROJECTS WITH U.S. WERE RELATIVELY FAR DOWN ROAD AND THAT IN MEANTIME USE SHOULD BE FOUND FOR ADDITIONAL NATURAL GAS OUTPUT WHICH COULD NOT BE EXPORTED, FOR TIME BEING.

4. FOLLOWING SECOND MEETING WITH SOVIETS JUNE 19, JOHANSSON REPORTED THAT ATMOSPHERE HAD BEEN MUCH WARMER, WITH SOVIETS CONFIDENTIAL

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PRESSING LUMMUS TO GO AHEAD WITH ENGINEERING PROPOSAL FOR ISOPRENE PLANT. SOVIETS ALSO STATED THAT BUTADIENE PROJECT HAD NOT BEEN DROPPED; ONLY CHANGE WAS THAT IT HAD BEEN GIVEN SLIGHTLY LOWER PRIORITY. JOHANSSON SAID SOVIETS INDICATED THAT CHOICE BETWEEN ALTERNATIVE FEEDSTOCKS HAD BEEN MAJOR CONSIDERATION IN REARRANGING SCHEDULE FOR CONSTRUCTION OF TWO PLANTS. ALTHOUGH DECISION TO GO AHEAD WITH ISOPRENE PROJECT RESTS WITH LUMMUS HEADQUARTERS, JOHANSSON SAID HE BELIEVED COMPANY'S

RESPONSE TO SOVIET REQUEST WOULD BE POSITIVE.

5. COMMENT: ON THE FACE OF IT, SOVIET DECISION OPT FOR ISOPRENE OVER BUTADIENE AT THIS POINT WOULD MAKE SENSE GIVEN HEAVY EXPORT DEMAND FOR NAPHTHA AND POSSIBILITY THAT ADDITIONAL NATURAL GAS OUTPUT IN 1978-79 PERIOD WOULD NOT BE EXPORTABLE IN ABSENCE RAPID MOVEMENT ON NORTH STAR AND YAKUTIA PROJECTS. FEDOROV'S "ILLNESS," FOLLOWING HIS NEAR COMMITMENT DURING VISIT TO U.S. TO GO AHEAD WITH BUTADIENE PROJECT, COULD, OF COURSE, BE OF POLITICAL NATURE AND REFLECT WIDER SHIFTS HERE ON ENERGY-RELATED MATTERS. IN ANY CASE, LUMMUS WOULD APPEAR TO HAVE INSIDE TRACK ON ISOPRENE PLANT, VALUED AT ABOUT \$500 MILLION, IF COMPANY PREPARED INVEST NECESSARY RESOURCES IN PRODUCING PROPOSAL. STOESEL

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